

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2010
with
Report of Independent Auditors

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Report of Independent Auditors

To the Board of Directors of
Affordable Housing Alliance II, Inc.:

We have audited the accompanying consolidated statement of financial position of Affordable Housing Alliance II, Inc. (a non-profit organization) and Subsidiaries as of December 31, 2010, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Affordable Housing Alliance II, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Affordable Housing Alliance II, Inc. and Subsidiaries as of December 31, 2010, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements of Affordable Housing Alliance II, Inc. taken as a whole. The accompanying supplementary information on pages 21 through 23 are presented for the purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Novogradac & Company LLP

San Francisco, California
November 16, 2011

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS

Current assets

Cash and cash equivalents	\$ 395,446
Other receivables	5,700
Managing general partner fees receivable	12,262
Tenant receivables	69
Security deposits	31,429
Prepaid expenses	5,684
Developer fees receivable	254,465
Total current assets	<u>705,055</u>

Fixed assets

Land	1,168,441
Fixed assets	9,488,694
Accumulated depreciation	<u>(2,401,960)</u>
Total fixed assets	8,255,175

Other assets

Restricted cash	152,628
Investment in partnerships	3,240,567
Intangible assets, net of accumulated amortization of \$90,154	<u>100,964</u>
Total other assets	3,494,159

Total assets	<u>\$ 12,454,389</u>
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AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
December 31, 2010

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	\$ 32,787
Security deposits payable	31,429
Prepaid rent	56
Accrued interest - notes payable	16,665
Current maturities of notes payable	65,265
Total current liabilities	146,202
Accrued interest - due to noncontrolling interests	264,932
Due to noncontrolling interests - Operating Partnerships	1,022,111
Due to FFAH	205,000
Accrued interest - developer fees	1,744
Developer fees payable	304,630
Accrued interest - notes payable	391,951
Notes payable, less current maturities	6,773,317
Total liabilities	9,109,887
Net assets	
Unrestricted net assets	
Controlling interest	126,132
Noncontrolling interests	3,218,370
Total net assets	3,344,502
Total liabilities and net assets	\$ 12,454,389

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2010

Revenue	
Rental income	\$ 806,851
Grant income	16,482
Managing general partner fees	12,544
Asset management fees	48,000
Developer fee income	254,465
Other income	9,325
Interest income	1,120
Income from partnerships	39,706
Total revenue	<u>1,188,493</u>
Expenses	
Program services	
Rental of affordable housing	1,031,892
Project expenses	249,643
Total program services	<u>1,281,535</u>
Supporting services	
General and administrative	7,221
Total supporting services	<u>7,221</u>
Total expenses	<u>1,288,756</u>
Change in net assets	(100,263)
Net assets at beginning of year (as originally stated)	7,276,363
Prior period adjustment	(3,831,598)
Net assets at beginning of year (restated)	<u>3,444,765</u>
Net assets at end of year	<u>\$ 3,344,502</u>

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2010

	<u>Program Services</u>		<u>Supporting Services</u>	
	<u>Rental of Affordable Housing</u>	<u>Project Expenses</u>	<u>General and Administrative</u>	<u>Total</u>
Administrative	\$ 12,248	\$ 10,434	\$ 550	\$ 23,232
Amortization	10,173	-	-	10,173
Depreciation	264,014	1,287	-	265,301
Insurance and tax	24,394	6,281	698	31,373
Interest expense	328,105	176,753	-	504,858
Legal and professional fees	22,710	30,995	-	53,705
Management fees	9,072	-	-	9,072
Property management fees	48,882	-	-	48,882
Marketing	13,936	-	-	13,936
Miscellaneous expenses	2,596	-	-	2,596
Payroll	146,278	23,893	5,973	176,144
Repairs and maintenance	74,661	-	-	74,661
Utilities	74,823	-	-	74,823
	<u>\$ 1,031,892</u>	<u>\$ 249,643</u>	<u>\$ 7,221</u>	<u>\$ 1,288,756</u>

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2010

Cash flows from operating activities:	
Total change in net assets	\$ (100,263)
Adjustments to reconcile total change in net assets to net cash provided by operating activities:	
Income from partnerships	(39,706)
Depreciation and amortization	275,474
Changes in operating assets and liabilities:	
Increase in other receivables	(4,000)
Increase in managing general partner fees receivable	(12,262)
Decrease in tenant receivable	579
Decrease in prepaid expenses	28
Increase in developer fee receivable	(254,465)
Decrease in accounts payable and accrued expenses	(1,819)
Decrease in prepaid rent	(1,296)
Increase in accrued interest - notes payable	202,489
Increase in accrued interest - due to noncontrolling interests	84,824
Increase in due to noncontrolling interests - Operating Partnerships	16,131
Increase in due to FFAH	5,000
Decrease in accrued interest - developer fees	(140)
Net cash provided by operating activities	<u>170,574</u>
Cash flows from investing activities:	
Purchase of partnership interest	(3,015,000)
Decrease in restricted cash	4,228
Purchase of fixed assets	(4,716)
Net cash used in investing activities	<u>(3,015,488)</u>
Cash flows from financing activities:	
Funding of notes payable	3,215,000
Payments of notes payable	(61,365)
Payment of developer fees payable	(4,495)
Net cash provided by financing activities	<u>3,149,140</u>
Net increase in cash and cash equivalents	304,226
Cash and cash equivalents at beginning of year	<u>91,220</u>
Cash and cash equivalents at end of year	<u>\$ 395,446</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	<u>\$ 217,685</u>
Supplemental disclosure of non-cash investing and financing activities:	
Increase in due to FFAH and investments in partnerships	<u>\$ 200,000</u>

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

1. Organization

Affordable Housing Alliance II, Inc. (“AHA2”), incorporated in the state of Colorado as a non-profit corporation, was established in 1993 to acquire, develop, and promote affordable senior and multi-family housing. AHA2’s expressed purpose is to help ease the burden on state, county, and local housing authorities through the construction, acquisition, and operation of housing for moderate, low, and very low income individuals and families. AHA2 is dedicated to provide quality housing that serves the physical, recreational, and emotional needs of its residents.

AHA2 is responsible for project acquisition and financing involving Federal and State Low Income Tax Credits and 501(c)(3) tax-exempt mortgage-backed revenue bonds, and the selection and supervision of the local professional property management company hired to handle on-site day-to-day management duties.

AHA2 builds and rehabilitates housing units for low income seniors and families. It secures construction and permanent financing, supervises architectural and general contractor selection, and manages the design and construction phases of the project, either by its Director and staff or through contracting with outside consultants and service companies.

2. Summary of significant accounting policies

Principles of consolidation

AHA2 consolidates in its financial statements two limited partnerships (“Operating Partnerships”) in which AHA2 is the sole general partner.

The portion of the equity of the Operating Partnerships that is not owned or controlled by AHA2 is shown as noncontrolling interests on the consolidated financial statements. All material intercompany transactions between consolidated entities have been eliminated.

The consolidated financial statements include the following Operating Partnerships:

Elizabeth Street Housing Investors, L.P.
Fort Collins Senior Housing Investors, L.P.

Investment in partnerships – equity method

AHA2 uses the equity method of accounting for its investments in three entities in which AHA2 serves as a non-managing member, as AHA2 has significant influence over, but not control of the major operating and financial policies of the entities. Under this method, AHA2’s share of income, losses, and distributions incurred by the entities is recognized as an increase or reduction of the carrying value of the investments.

The following entities are recorded under the equity method:

Highlander Pointe, LLC
Claremont Villas, LLC
Maroon Creek Apartments, L.P.

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

2. Summary of significant accounting policies (continued)

Basis of accounting

AHA2 prepares consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. AHA2's year end for financial and tax reporting purposes is December 31.

Financial statement presentation

AHA2 reports information regarding its financial position, activities, and cash flow according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There were no permanently or temporarily restricted assets as of and for the year ended December 31, 2010. Furthermore, information is required to segregate program service expenses from management and general expenses.

Noncontrolling interest consist of the equity of unrelated partners in the Operating Partnerships. In prior years, this was described as minority interest and shown separately from net assets.

Income taxes

AHA2 is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Revenue and Taxation Code and, therefore, is generally exempt from both federal and state income taxes. However, income from unrelated business activity not directly related to its tax-exempt purpose is subject to income tax. During the year ended December 31, 2010, AHA2 had no unrelated business income. In addition, AHA2 qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and is qualified as an organization that is not a private foundation under Section 509(a)(2).

Income taxes on partnership income are levied on the partners in their individual capacity. Accordingly, all profits and losses of the Operating Partnerships are recognized by each partner on its respective tax return.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the company to report information regarding its exposure to various tax positions taken by AHA2. Management has determined whether any tax positions have met the recognition threshold and has measured the AHA2's exposure to those tax positions. Management believes that AHA2 has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to AHA2 are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying consolidated financial statements.

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the collection of developer, managing general partner, management specialist service agreement, and asset/incentive management fees which in most cases is dependent on the underlying properties' cash flow.

Revenue recognition

AHA2 receives its revenue (not including public contributions or grants) from four primary sources. The first source is generated on a monthly basis from managing general partner fees (not to be confused with property management fees) for each project (which is also negotiable). The second source is asset management fees for each project. The third source consists of development fees, which are negotiated for each project and are payable in accordance with the applicable partnership or development agreement. The fourth source will be from the infrequent sale of a property, the funds from which will still be subject to fulfilling the non-profit purpose of AHA2. All fees are recognized when earned.

The Operating Partnerships generate rental income from their operations. Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between Operating Partnerships and the tenants are residential leases.

Grant income

AHA2 periodically receives grants from various institutions for the purpose of real estate development, tenant services and general operations. Included in the consolidated financial statement of activities for the year ended December 31, 2010 is \$16,482 of grant income.

Contributions

Contributions are recognized as revenue when they are unconditionally given. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions received are recorded at their fair value as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received or the contribution is restricted for the purchase of long-lived assets, the contribution is reported as unrestricted funds.

Contributed services are recognized in the consolidated financial statements when the services either (a) create or enhance a nonfinancial asset or (b) are specialized skills provided by entities or persons possessing those skills that would be purchased if they were not donated.

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

2. Summary of significant accounting policies (continued)

Economic concentrations

AHA2 receives a significant amount of revenue from the projects in which it is a general partner. These sources of funds are dependent upon the continued successful development and management of these projects.

AHA2, as a general partner, has an economic interest in the projects that are subject to business risks associated with the economy and level of unemployment in California and Colorado, which affects occupancy as well as the tenants' ability to make rental payments. In addition, these projects operate in a heavily regulated environment. The operations of these projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Housing and Urban Development ("HUD"). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD and may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Concentration of credit risk

AHA2 has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by federal deposit insurance. AHA2 believes that its credit risk is not significant.

Cash and cash equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Restricted cash is not considered cash and cash equivalents.

Account receivables and bad debts

Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Fixed assets

AHA2 records all fixed assets at cost. The depreciation of the fixed assets is provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Life</u>
Residential building	40 years
Land improvements	7 to 20 years
Furniture and equipment	3 to 12 years

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

2. Summary of significant accounting policies (continued)

Impairment of long-lived assets

AHA2 reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized for the year ended December 31, 2010.

Intangible assets and amortization

Intangible assets consist of permanent loan fees and tax credit fees. Permanent loan fees are amortized over the life of the respective loan. Tax credit fees are amortized using the straight-line method over a period of 10 or 15 years (a period that coincides with the compliance period in accordance with IRC Section 42).

Functional expenses allocation

The costs of providing program services and support services are summarized on a functional basis in the consolidated statements of activities and consolidated statements of functional expenses. The functional classifications are defined as follows:

- Program services expenses consist of costs incurred in connection with providing services and conducting programs.
- Support services consist of costs incurred in connection with the overall activities of AHA2, which are not allocable to another functional expense category.

Fair value of financial instruments

In accordance with accounting principles generally accepted in the United States of America, the AHA2 establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific thereto. Items, such as listed securities investments, for which fair value can be measured from actively quoted market prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following levels:

- Level I – Quoted prices are available in active markets for identical items as of the reporting date and are observable.

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

2. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the item. The inputs into the determination of fair value require significant management judgment or estimation.

	December 31, 2010			
	Level I	Level II	Level III	Fair value measurements
Investment in partnerships \$	-	-	\$ 3,240,567	\$ 3,240,567
Restricted cash	152,628	-	-	152,628
	\$ 152,628	\$ -	\$ 3,240,567	\$ 3,393,195

AHA2's financial instruments include cash and cash equivalents, receivables, accounts payable and accrued expenses. The carrying amount of these financial instruments approximates their fair value due to their short maturities.

Subsequent events

Subsequent events have been evaluated through November 16, 2011, which is the date the financial statements were available to be issued. On February 1, 2011 an additional 49% of membership interest in Claremont Villas, LLC ("Claremont") was purchased by AHA2 from Foundation for Affordable Housing, Inc. ('FFAH').

3. Restricted cash

AHA2's restricted cash is comprised of the following as of December 31, 2010:

Replacement reserve	\$ 131,777
Tax and insurance escrow	<u>20,851</u>
Total	<u>\$ 152,628</u>

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

4. Fixed assets

As of December 31, 2010, the fixed assets consist of:

	AHA2	Operating Partnerships	Total
Land	\$ -	\$ 1,168,441	\$ 1,168,441
Buildings	-	8,980,475	8,980,475
Land improvements	-	502,106	502,106
Furniture and equipment	6,113	-	6,113
Total fixed assets	6,113	10,651,022	10,657,135
Less: accumulated depreciation	(2,511)	(2,399,449)	(2,401,960)
Net fixed assets	<u>\$ 3,602</u>	<u>\$ 8,251,573</u>	<u>\$ 8,255,175</u>

Depreciation expense for the year ended December 31, 2010 was \$265,301.

5. Intangible assets

As of December 31, 2010, intangible assets consist of:

	AHA2	Operating Partnerships	Total
Loan fees	\$ -	\$ 163,058	\$ 163,058
Tax credit fees	-	28,060	28,060
Total intangible assets	-	191,118	191,118
Less: accumulated amortization	-	(90,154)	(90,154)
Net intangible assets	<u>\$ -</u>	<u>\$ 100,964</u>	<u>\$ 100,964</u>

Amortization expense for the year ended December 31, 2010 was \$10,173.

6. Investments in partnerships

A summary of AHA2's investments as a non-managing member in non-consolidated entities as of December 31, 2010 is as follows:

Name	AHA2 Investment Balance	% of Ownership Profits / Losses	Total Partnerships' Capital/(Deficit)	AHA2 Share of Partnerships' Income/(Loss)
Highlander Pointe, LLC.	\$ (29,335)	25.00%	\$ (117,341)	\$ (29,335)
Maroon Creek Apartments, L.P.	(14,917)	0.51%	(152,555)	(778)
Claremont Villas, LLC.	1,645,169	49.00%	210,361	69,819
Additional commitment to purchase Claremont (See Note 8)	1,639,650		-	-
Total	<u>\$ 3,240,567</u>		<u>\$ (59,535)</u>	<u>\$ 39,706</u>

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

6. Investments in partnerships (continued)

Highlander Pointe, LLC.

In July 2010, Highlander Pointe, LLC was formed for the purpose of owning or leasing the land and to own, construct, hold, improve, maintain, operate, develop, sell, mortgage, exchange, finance and lease a 132 unit affordable housing complex known as Highlander Pointe Apartments located in Riverside, California. AHA2 has a 25 percent interest in the limited liability company.

Claremont Villas, LLC.

In July 2009, Claremont Villas, LLC ("Claremont") was formed for the purpose of owning or leasing the land and to own, construct, hold, improve, maintain, operate, develop, sell, mortgage, exchange, finance and lease 154 units of affordable housing known as Claremont Senior Villas in Claremont, California. AHA2 has a 49 percent interest in the limited liability company.

Maroon Creek Apartments, L.P.

In December 1994, Maroon Creek Apartments, L.P. was formed for the purpose of owning or leasing the land and to own, construct, hold, improve, maintain, operate, develop, sell, mortgage, exchange, finance and lease 42 multifamily senior rental housing units known as Maroon Creek Apartments in Aspen, Colorado. AHA2 has a 0.51 percent general partner interest in the partnership.

7. Summaries of Operating Partnerships

Elizabeth Street Investors, L.P.

In August 1999, Elizabeth Street Investors, L.P. was formed for the purpose of owning or leasing the land and to own, construct, hold, improve, maintain, operate, develop, sell, mortgage, exchange, finance and lease 50 multi-family rental units known as Woodbridge Senior Apartments in Fort Collins, Colorado. AHA2 has a 0.001 percent general partner interest in the partnership.

Fort Collins Senior Housing Investors, L.P.

In November 1998, Fort Collins Senior Housing Investors, L.P. was formed for the purpose of owning or leasing the land and to own, construct, hold, improve, maintain, operate, develop, sell, mortgage, exchange, finance and lease 72 multifamily senior rental-housing units known as Reflections Senior Apartments in Fort Collins, Colorado. AHA2 has a 0.1 percent general partner interest in the partnership.

8. Related party transactions

Managing general partner fees

AHA2 receives fees from several lower-tier properties for which it is the Managing General Partner. The amount of these fees is determined based on each property's partnership agreement. For the year ended December 31, 2010, AHA2 earned \$19,375 of managing general partner fees and \$6,831 was eliminated in consolidation.

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

8. Related party transactions (continued)

Managing general partner fees receivable (continued)

As of December 31, 2010, \$26,160 was outstanding and \$13,898 was eliminated in consolidation.

Incentive management fees receivable

AHA2 earned incentive management fees of \$1,000 for the year ended December 31, 2010 from the Operating Partnerships that was eliminated in consolidation. As of December 31, 2010, no incentive management fees were outstanding.

Asset management fees income

AHA2 receives compensation for its services managing the day-to-day business and affairs of Claremont. Claremont pays to AHA2 an annual fee of \$48,000 payable in monthly installments of \$4,000. For the year ended December 31, 2010, AHA2 earned \$48,000. As of December 31, 2010, \$4,000 was outstanding and is included in other receivables in the accompanying consolidated statement of financial position.

Developer fees

AHA2 earns developer fees from lower-tier properties, which it serves as developer. For the year ended December 31, 2010, AHA2 earned \$254,465 of developer fees from Highlander Pointe, LLC. As of December 31, 2010, developer fees receivable was \$254,465.

Purchase of Claremont

Pursuant to the purchase agreement between FFAH and AHA2 dated February 1, 2010, FFAH agreed to sell its membership interest in Claremont for \$3,215,000. Of the total sales price, \$3,015,000 was paid to FFAH. AHA2 kept \$200,000 to fund operating expenses and will pay back FFAH when Claremont is sold or refinanced. Under the terms of the agreement, FFAH is to purchase from Claremont its membership interest in three phases: \$1,575,350 for 49% effective February 1, 2010, \$1,575,350 for 49% effective February 1, 2011 and \$64,300 for 2% effective February 1, 2012. As of December 31, 2010 a payable in the amount of \$200,000 to FFAH was recorded. During 2010, AHA2 paid \$1,477,350 for 49% of Claremont's interest and prepaid \$1,537,650 for the remaining 51% to be transferred in 2011 and 2012.

Due to FFAH

During 2010 FFAH paid expenses on behalf of AHA2. As of December 31, 2010, \$5,000 was due to FFAH for reimbursement of expenses.

9. Due to noncontrolling interests - Operating Partnerships

Voluntary loans – Elizabeth Street

The investor limited partner of Elizabeth Street has advanced certain monies to the partnership. The advance is unsecured and bears interest at a rate of 7% per annum compounded annually. On December 1, 2009, the partnership entered into a note with the investor limited partner. The note will mature on December 1, 2039 and is due and payable from the distribution of cash flow in the order of priority as further detailed in the partnership agreement. During 2010, interest expense was \$49,353. As of December 31, 2010, the outstanding principal balance was \$482,150 and accrued interest was \$226,466.

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

9. Due to noncontrolling interests - Operating Partnerships (continued)

Voluntary loans – Elizabeth Street (continued)

On December 1, 2009, Elizabeth Street converted the outstanding developer note and its accrued interest due to MCA Housing Partners, LLC into a voluntary loan. The note will mature on December 1, 2039, bears interest at a rate of 7% per annum compounded annually and is due and payable from the distribution of cash flow in the order of priority as further detailed in the partnership agreement. During 2010, interest expense was \$35,471. As of December 31, 2010, the outstanding principal balance was \$503,693 and accrued interest was \$38,466.

The Operating Partnerships incurred various accrued fees and payables to their limited partner(s) and other related parties. All fees owed to AHA2 have been eliminated. The outstanding fees are due to related parties of the Operating Partnerships other than AHA2. As of December 31, 2010, accrued fees due to noncontrolling interest were \$36,268.

10. Developer fees payable

Developer fees payable consist of the following as of December 31, 2010:

	Principal	Accrued Interest
<p><u>Fort Collins Senior Housing Investors, L.P.</u> Pursuant to the developer agreement, dated December 3, 1998, MCA Housing Partners, LLC, an affiliate of the limited partner earned a development fee in the amount of \$477,795 for services in connection with the development of the project. Of this fee, 8.33% was paid to AHA2. On December 18, 2001, the partnership converted the remaining developer fee payable in the amount of \$391,903 into a promissory note (the “Developer Note”). The Developer Note bears interest at the applicable federal rate (short term), compounded annually. As of December 31, 2010, the applicable federal rate (short term) was 0.69%. The outstanding principal balance together with any accrued interest will become due and payable on December 18, 2011. Payments on the Developer Note are scheduled to be made from available project cash flow, as defined in the partnership agreement. During 2010, interest expense was \$1,744.</p>	\$ 304,630	\$ 1,744

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

11. Notes payable

Notes payable consist of the following as of December 31, 2010:

	Principal	Accrued Interest
<u>AHA2</u>		
Effective February 1, 2010, AHA2 entered into a loan agreement with Pacific Blue Investments, LLC in the amount of \$3,215,000. The loan bears interest at a rate of 6% per annum. Payment of the loan is to be made from residual receipts of Claremont up to 6% due 15 days after receipt of Claremont's annual audited financial statements. The loan matures on July 1, 2049. During 2010, interest expense was \$176,753.	\$ 3,215,000	\$ 176,753
<u>Fort Collins Senior Housing Investors, L.P.</u>		
Effective December 6, 2000, the partnership entered into a loan agreement with ARCS Commercial Mortgage Co., L.P. in the amount of \$2,100,000. The loan is secured by a first deed of trust on the project and requires monthly payments of principal and interest totaling \$14,914. The loan bears interest at a fixed rate of 7.66% per annum and matures on February 1, 2020. During 2010, interest expense was \$144,414.	1,869,344	11,933
Effective September 27, 1999, the partnership entered into a loan agreement with the City of Fort Collins in the amount of \$200,000. The loan is secured by a second deed of trust on the project. The loan will mature on September 27, 2019 and bears interest at a fixed rate of 7% per annum, compounded annually. Payment of the loan is to be made from available cash flow, as outlined in the partnership agreement. Payments will first be applied to any accrued interest, then to the principal amount. During 2010, interest expense was \$26,051.	200,000	215,198

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

11. Notes payable (continued)

	Principal	Accrued Interest
<u>Elizabeth Street Housing Investors, L.P</u>		
Effective July 24, 2003, the partnership entered into loan agreements with the Colorado Housing Finance Authority in the amounts of \$950,000 (the "First Loan") and \$350,000 (the "Second Loan"). The First Loan bears interest at a fixed rate of 6.35% per annum and is secured by a first deed of trust on the project. The Second Loan bears interest at a fixed rate of 1.00% per annum and is secured by a second deed of trust on the project. Commencing on September 1, 2003, principal and interest payments on the First Loan and Second Loan of \$5,911 and \$1,126, respectively, are due on the first day of the month until maturity. The unpaid principal and accrued and unpaid interest on both loans is due August 1, 2023. During 2010, interest expense was \$57,322.	1,125,109	4,732
Effective December 14, 2001, the partnership entered into a loan agreement with the City of Fort Collins in the amount of \$250,000. The note bears interest at a fixed rate of 5.5% per annum beginning on January 1, 2003. Annual interest only payments are due beginning December 14, 2003 through December 14, 2011. Beginning in year eleven until the maturity date, the partnership is required to pay equal annual payments of principal and accrued interest in an amount necessary to allow for the full repayment of the loan. The loan matures on December 15, 2021. The unpaid principal and accrued interest is due and payable in full upon the earlier of the sale of the project or the maturity date. The loan is secured by a deed of trust on the project. During 2010, interest expense was \$13,750.	250,000	-
Effective May 1, 2003, the partnership entered into a loan agreement with the First National Bank of Fort Collins in the amount of \$179,129, without interest. The note was made pursuant to the Federal Home Loan Bank Affordable Housing Program to help finance the construction of the project. The loan is secured by a deed of trust on the project. The loan matures on May 1, 2018.	179,129	-
Total	\$ 6,838,582	\$ 408,616

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

11. Notes payable (continued)

Future minimum principal payments over each of the next five years and thereafter are due as follows:

Year ending December 31,		
2011	\$	65,265
2012		69,450
2013		73,945
2014		78,772
2015		83,956
Thereafter		<u>6,467,194</u>
Total	\$	<u>6,838,582</u>

12. Changes in consolidated unrestricted net assets

The changes in AHA2's consolidated unrestricted net assets are reconciled as follows:

	Total	Controlling Interests	Noncontrolling Interests
Balance, January 1, 2010 (as originally stated)	\$ 7,276,363	\$ 2,755	\$ 7,273,608
Prior period adjustment	<u>(3,831,598)</u>	<u>-</u>	<u>(3,831,598)</u>
Balance, January 1, 2010 (restated)	3,444,765	2,755	3,442,010
Change in unrestricted net assets	<u>(100,263)</u>	<u>123,377</u>	<u>(223,640)</u>
Balance, December 31, 2010	<u>\$ 3,344,502</u>	<u>\$ 126,132</u>	<u>\$ 3,218,370</u>

AHA2's 2009 financial statements consolidated the activity of Maroon Creek Apartments, L.P. However, management has subsequently determined it lacks sufficient control over this partnership to treat it under the consolidation method. For 2010, Maroon Creek Apartments, L.P. was treated under the equity method. As a result, beginning consolidated assets decreased by \$5,048,638, consolidated liabilities decreased by \$1,217,040 and noncontrolling interests decreased by \$3,831,598.

SUPPLEMENTARY INFORMATION

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS	AHA2	Subsidiaries	Pre - Consolidation	Eliminations	Consolidated Balance
Current assets					
Cash and cash equivalents	\$ 195,899	\$ 199,547	\$ 395,446	\$ -	\$ 395,446
Other receivables	4,000	1,700	5,700	-	5,700
Managing general partner fees receivable	26,160	-	26,160	(13,898)	12,262
Tenant receivables	-	69	69	-	69
Security deposits	-	31,429	31,429	-	31,429
Prepaid expenses	-	5,684	5,684	-	5,684
Developer fee receivable	254,465	-	254,465	-	254,465
Total current assets	480,524	238,429	718,953	(13,898)	705,055
Fixed assets					
Land	-	1,168,441	1,168,441	-	1,168,441
Fixed assets	6,113	9,482,581	9,488,694	-	9,488,694
Accumulated depreciation	(2,511)	(2,399,449)	(2,401,960)	-	(2,401,960)
Total fixed assets	3,602	8,251,573	8,255,175	-	8,255,175
Other assets					
Restricted cash	-	152,628	152,628	-	152,628
Investment in partnerships	3,239,033	-	3,239,033	1,534	3,240,567
Intangible assets, net of accumulated amortization of \$90,154	-	100,964	100,964	-	100,964
Total other assets	3,239,033	253,592	3,492,625	1,534	3,494,159
Total assets	<u>\$ 3,723,159</u>	<u>\$ 8,743,594</u>	<u>\$ 12,466,753</u>	<u>\$ (12,364)</u>	<u>\$ 12,454,389</u>

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
December 31, 2010

	AHA2	Subsidiaries	Pre - Consolidation	Eliminations	Consolidated Balance
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and accrued expenses	\$ 274	\$ 32,513	\$ 32,787	\$ -	\$ 32,787
Security deposits payable	-	31,429	31,429	-	31,429
Prepaid income	-	56	56	-	56
Accrued interest - notes payable	-	16,665	16,665	-	16,665
Current maturities of notes payable	-	65,265	65,265	-	65,265
	<u>274</u>	<u>145,928</u>	<u>146,202</u>	<u>-</u>	<u>146,202</u>
Accrued interest - due to noncontrolling interests	-	264,932	264,932	-	264,932
Due to noncontrolling interests - Operating Partnerships	-	1,036,009	1,036,009	(13,898)	1,022,111
Due to FFAH	205,000	-	205,000	-	205,000
Accrued interest - developer fees	-	1,744	1,744	-	1,744
Developer fees payable	-	304,630	304,630	-	304,630
Accrued interest - notes payable	176,753	215,198	391,951	-	391,951
Notes payable, less current maturities	3,215,000	3,558,317	6,773,317	-	6,773,317
Total liabilities	<u>3,597,027</u>	<u>5,526,758</u>	<u>9,123,785</u>	<u>(13,898)</u>	<u>9,109,887</u>
Net assets					
Unrestricted net assets					
Controlling interest	126,132	(1,534)	124,598	1,534	126,132
Noncontrolling interest	-	3,218,370	3,218,370	-	3,218,370
Total net assets	<u>126,132</u>	<u>3,216,836</u>	<u>3,342,968</u>	<u>1,534</u>	<u>3,344,502</u>
Total liabilities and net assets	<u>\$ 3,723,159</u>	<u>\$ 8,743,594</u>	<u>\$ 12,466,753</u>	<u>\$ (12,364)</u>	<u>\$ 12,454,389</u>

AFFORDABLE HOUSING ALLIANCE II, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended December 31, 2010

	AHA2	Subsidiaries	Pre- Consolidation	Eliminations	Consolidated Balance
Revenue					
Rental income	\$ -	\$ 806,851	\$ 806,851	\$ -	\$ 806,851
Grant income	16,482	-	16,482	-	16,482
Managing general partner fee	19,375	-	19,375	(6,831)	12,544
Asset management fees	48,000	-	48,000	-	48,000
Developer fee income	254,465	-	254,465	-	254,465
Other income	2,007	8,318	10,325	(1,000)	9,325
Interest income	285	835	1,120	-	1,120
Income from partnerships	39,627	-	39,627	79	39,706
Total revenue	<u>380,241</u>	<u>816,004</u>	<u>1,196,245</u>	<u>(7,752)</u>	<u>1,188,493</u>
Expenses					
Program services					
Rental of affordable housing	-	1,039,723	1,039,723	(7,831)	1,031,892
Project expenses	249,643	-	249,643	-	249,643
Total program services	<u>249,643</u>	<u>1,039,723</u>	<u>1,289,366</u>	<u>(7,831)</u>	<u>1,281,535</u>
Supporting services					
General and administrative	7,221	-	7,221	-	7,221
Total expenses	<u>256,864</u>	<u>1,039,723</u>	<u>1,296,587</u>	<u>(7,831)</u>	<u>1,288,756</u>
Change in net assets	<u>\$ 123,377</u>	<u>\$ (223,719)</u>	<u>\$ (100,342)</u>	<u>\$ (79)</u>	<u>\$ (100,263)</u>